

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-1

**COMMENTS OF THE
NATIONAL ASSOCIATION OF PRESORT MAILERS**
(November 02, 2012)

The National Association of Presort Mailers (NAPM) hereby respectfully submits these comments on the Postal Service's notice of price adjustments for market-dominant products.¹

NAPM membership includes 75 company members representing 143 mailing sites mailing in 36 states. NAPM represents mail owners preparing their own mail and mail service providers that commingle client mailings. Membership ranges from some of the largest mailers in the industry to many small business mailers providing services to their communities.

Our members interact with, and collect mail from, tens of thousands of mail consumers and combine their mail together to present it as a single mailing to the Postal Service so that the client can receive the benefits of workshare postage discounts with minimal involvement with the complex mailing standards required of the Postal Service. Collectively, NAPM represents approximately 40 percent of the total First-Class Letter Mail volume.

We are committed to ensuring this mail remains profitable and in the Postal system. We are true partners with the Postal Service: we sell their products, our customers are their customers, and just like the Postal Service, without mail we don't have a business.

¹ *United States Postal Service Notice of Market-Dominant Price Adjustment*, Docket No. R2013-1 (October 11, 2012) ("*USPS Notice*"). The Commission gave notice of these rate adjustments in Order No. 1501, 77 *Fed. Reg.* 64362 (Oct. 19, 2012).

I. The Value of Presort Mail

It is a known fact that First-Class Mail Letters, Presort mail volumes have trended much better than Single-Piece. Mail prepared for workshare discounts is not only declining at a much slower pace than Single-Piece, it is significantly more profitable to the USPS- realizing a 6 cent per piece higher revenue contribution than Single-Piece. The members of NAPM have been valued partners with the Postal Service, delivering high quality mail to the Postal Service with accurate addresses, high quality barcodes, and high density preparation levels, transported and entered where the Postal Service wants it, bypassing many initial processing functions.

NAPM members add value to the mail in the following ways:

- Pick up non-automated or pre-barcoded mail from thousands of mail consumers. The volumes picked up from each consumer range from 50 to hundreds of thousand pieces daily;
- Perform quality checks on the mail and work with clients to address mailing standards deficiencies;
- Process the mail on Multiline Optical Character Reader sorting equipment to put a delivery point barcode on it and presort to most efficient service levels;
- Update addresses or return UAA mail depending on customer choice;
- Upgrade barcodes to improve deliverability and machine readability or provide value added services depending on customer choice;
- Upgrade mailings to the Full Service IMb mailing option;
- Produce fuller, finer depth of sort trays, prepared to destination entry facilities;
- Produce fuller, finer depth of sort containers, prepared to destination and processing facility capability of the inducting postal facilities; and
- Enter mail further downstream in the Postal processing network and optimize transportation to pick up mail to meet processing needs.

These activities and others benefit the mail consumer in many ways, including:

- Compliance with mailing rules and requirements, allowing the customer to focus on their business;
- Ensure easy access to the right mailing products to meet their needs;
- Improve understanding of the importance of good address hygiene;
- Improve understanding of mail piece design to ensure they receive optimal service;
- Convenient pick up with no preparation required;
- Provide mailing supplies to the customer so they don't have to pick them up from the USPS;
- Education and value-added services regarding registration requirements for products or services; and
- Access to the lowest postage prices and the best available service standards.

The Postal Service also benefits in many ways, including:

- Improved efficiency and reduced costs – presort mailers consolidate hundreds of individual mailings into a single mailing for the automation and Intelligent mail-stream, improving operational efficiencies and reducing customer costs to serve;
- Improved customer experience and increased mail volumes – presort mailers provide turn-key services to resolve compliance and on-boarding issues and minimize the efforts for the consumer to use the mail; and
- Lower-cost, more efficient, more profitable mail – presort mailers provide more densely prepared mailings, containerized with fuller trays for final destination and optimized for mail processing acceptance, reducing USPS transportation and handling costs and improving Postal processing throughput.

II. First-Class Mail Prices Send the Wrong Message

For all of the reasons stated above, there is not a simpler, more convenient way for a mail consumer to use First-Class Mail commercial products than through the services NAPM members provide. Yet, the prices proposed for First-Class Mail Letters send the wrong

signals; they penalize presorted mail rather than reward it. NAPM is concerned that these prices will discourage the use of more efficient and more profitable presort mail and drive them towards e-delivery solutions at a quicker pace.

For the second year in a row, the Postal Service is imposing an above-average rate increase on Presort letters and a below-average increase on Single-Piece letters. The most efficient, low cost Presort Letters product – 5-Digit Automation Letters – will increase by 2.9 percent. In contrast, Single-Piece Letters will increase only 2.2 percent. These prices harm the mailing industry and the long-term financial security of the Postal Service. The prices fail to maximize the contribution (profit) of the Postal Service under the CPI price cap and will add to the growing disparity in the unit contribution and cost coverage among Presort and Single-Piece Letters. This will result in higher prices on the most efficient, lowest-cost, most profitable products.

The disproportionate burden on Presort Letters is one major flaw in the price adjustments. A second, related issue is the Postal Services continued refusal to pass through the full amount of the workshare-related avoided costs within Presort Letters. Again, for the second year in a row, the Postal Service has proposed workshare discounts that are too small and as a result Presort prices that are too high. The only way the Postal Service can improve operational efficiency and lower total mailing costs is by offering workshare discounts that fully reflect the value of the work performed by mailers and mail service providers. In this case, three of the five discounts in Presort Letters – Mixed AADC, 3-Digit, and 5-Digit – fail to pass through the full amount of avoided costs.

The price for Mixed AADC letters has two problems. First, the pass-through from Single-Piece to Mixed AADC is only 93.2 percent. This is economically inefficient; the pass-through should be set at 100 percent of the workshare-related avoided costs. Second, the Mixed AADC price has jumped around haphazardly. Over the course of the last three years, the MAADC to AADC discount has expanded and contracted dramatically, from 2.2 cents in April 2011, to 3.0 cents in January 2012, to 2.1 cents in January 2013. Fluctuations in the MAADC price have introduced unpredictability and instability among Presort rates that further undermine efficient preparation.

The 5-Digit Letters price also fails to reward efficiency. The pass-through for 5 Digit Letters is presented as 96 percent, but this pass-through is overstated. Because the Postal Service has set the 3-Digit price equal to the AADC price, the effective reference point for mailers is the AADC price, not the 3-Digit price – there is no incentive or requirement for a

mailer to prepare the mail at 3-Digit. Measured from the AADC price, the pass-through is substantially below 100 percent. No explanation is provided by the Postal Service as to why it persists in giving its most efficient, lowest-cost, most profitable letter mail product above-average increases.

NAPM is concerned that the current prices reflect a disturbing trend of pricing strategy to drive mail volumes towards Postal Service excess capacity. These concerns are amplified by public statements of Postal Service executives which observed that the MAADC letter price was intended to bring mail in-house because of excess capacity in mail processing operations. The price increase on MAADC mail is a fraction of the increase imposed on 5-Digit mail. This sends the message to the mailing industry that the Postal Service has no interest in trying to provide more cost effective, faster service. It confirms mailers' fears that the Postal Service wants to bring mail in-house to avoid having to make further cost reductions. This pricing philosophy is counterproductive and will succeed only in driving mail out of the system.

Pricing to excess capacity also has negative impacts on service standards. For example, the Postal Service is pursuing service standards changes designed to maintain a higher service standard for more densely prepared finer sorted mailings of 5-Digit / Scheme containers destined to delivery ZIP codes processed by the entry facility. Yet the price signals discourage fine sortation by setting discounts too low and prices too high for 5-Digit mail. Mailers are being asked to do more, at a higher price, to obtain today's service standards. This is a bad deal for mailers and it undercuts efforts to keep mail in the system.

NAPM recognizes that excess capacity is a real issue. The Postal Service is burdened with an oversized infrastructure in the face of declining mail volumes. Changes in delivery service standards will also result in longer mail processing windows. But NAPM believes the solution is to remove the excess capacity from the network, not to price to it. Pricing to excess capacity is exclusionary and will only perpetuate the problem and discourage the use of the mail.

III. Promotions Are an Important Pricing Tool, But Careful Review is Required

NAPM supports the Postal Service's use of promotional pricing as an important tool to enhance the value of mail. NAPM also recognizes the importance of promoting integrated digital and physical solutions for mail. More broadly, NAPM recognizes the marketing value

of integrating a multi-channel approach to stimulate a consumer response. Using the mail as a vehicle has obvious benefits for purposes of delivering unique, relevant marketing content. The Postal Service must ensure that promotional discounts stimulate investment in the mail that will improve service and keep costs affordable.

Additionally, the business case for new promotions must be more fully developed on the record. The Postal Service's filing does not provide data necessary to determine whether these discounts are contributing to revenue growth or how they impact Postal costs, including costs associated with the promotion, engagement, monitoring and management of them.

These concerns have taken on added importance because, for the first time, mailers that do not qualify for the promotional prices will now be asked to pay more for non-promotional mail in an attempt to recover foregone revenue. This is a fundamental change in the way the Postal Service prices promotions. This change raises equitable and policy concerns as well as technical issues regarding price cap calculations that must be fully explored by the Commission. Among other issues, the Commission must ensure that the Postal Service is not permitted to recover revenue in excess of the CPI price cap in the event the revenue foregone projections overstate the revenue "leakage" associated with the promotions.

IV. Expanded IMb Incentives: A Missed Opportunity

For the reasons discussed above, NAPM supports the Postal Service's use of its pricing flexibility to provide promotions and incentives. What is missing from the current price filing are new incentives to help drive Full Service Intelligent Mail barcode (IMb) adoption. The Postal Service should use its pricing flexibility to promote the expansion of IMb by increasing the incentive for Full Service IMb First-Class and Standard Mail. The expansion of the IMb incentives would be a smart investment in the future of mail.

Expanded incentives would build on the early success of the IMb program. One of their earliest and significant attempts at increasing the value proposition of mail was the Postal Service's Intelligent Mail strategy which began about 10 years ago. The mailing industry embraced the idea of an information-rich mail stream and the Postal Service was subsequently able to claim that "[w]ith the release of Full Service in mid-May 2009, the Postal

Service became the *first postal organization in the world* (emphasis added) to offer national Intelligent Mail®.”²

The adoption of the Full Service IMb grew rapidly at the onset because the mailing industry embraced it. NAPM members were among the first adopters and contributed significant investments of time and money towards the design of Intelligent Mail. Because of our investment the mail volume of tens of thousands of consumers became Full Service eligible early on. Today we still contribute 60% of all First Class Full Service mail entering the Postal mailstream. This was achieved because NAPM members made substantial investments to become compliant and with a minimal additional cost and time investment by the mail owners. Unfortunately, Full Service IMb growth has stalled in part because the value proposition for mailers has often been overwhelmed by the costs of implementing and maintaining the information technology infrastructure necessary to support it. For several years, the industry has provided feedback to the Postal Service that increased price incentives are necessary to stimulate broad-based adoption.

The Postal Service is proceeding with a mandate requiring Full Service IMb as a condition for all automation discounts in 2014. NAPM supports the mandate, but a strategy that relies on “all stick and no carrot” will likely be unsuccessful. Additionally, punitive fines for noncompliance may discourage investment and accelerate mail diversion.

The Postal Service has developed several new programs to incentivize smaller mailers – free tools and services (IMsb) and price incentives (IMb “tech credit”). But these measures have raised concerns by the mailing industry regarding fair competition, non-discriminatory pricing and mailing standards, and will do little to offset the investment costs borne by the larger mail service providers and business mailers who make up the substantial bulk of mail volumes. Additional pricing incentives for all Full Service IMb mailers are necessary and should be adopted.

V. Conclusion

It is imperative that the Postal Service reevaluate its strategic business decisions, engage, and embrace the industry capabilities to create a much more cost effective, service responsive, and profitable mail channel. Pricing decisions are a critical component of the

² United States Postal Service Intelligent Mail Vision, November 2010

Postal Service's strategy. The recent price signals are self-defeating. The Postal Service cannot hope to reverse or slow mail volume declines with successive above average price increases on its most profitable product – Presort Letters.

Pricing to help the Postal Service absorb excess capacity is not the direction that the Postal Service should be headed. Moving products and services in a direction that reduces rather than increases service is not a successful formula for any business in today's market place. It is important to all of our member companies that the postal system remains as efficient and as cost effective as it can be. Instead of pricing for capacity, the Postal Service needs to manage their capacity to meet the needs of their customers. This is the only path to long-term financial stability for the Postal Service. The Postal Service must price to encourage the use of its most efficient, lowest cost, and most profitable products. This is essential to ensure that mail continues to be perceived as a viable communications medium.

NAPM appreciates the Commission's consideration of these comments.

Respectfully submitted,
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